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SIPDIS

SENSITIVE

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SUBJECT: QIZ'S HAVE ANOTHER BANNER YEAR

REF: AMMAN 7292

SENSITIVE BUT UNCLASSIFIED

1. (SBU) Exports to the United States from Jordan's Qualifying Industrial Zones (QIZ's) jumped up the charts to USD 586.6 million in 2003, a 54 percent increase over 2002. Garments represented about 95 percent of the exports, according to the confirmed statistics from the Ministry of Industry and Trade. With the United States being the destination for about a third of Jordan's overall export totals, the U.S. has replaced Iraq as Jordan's number one trade partner. Non-QIZ exports are expected to be over USD 100 million. Jordan should surpass total exports of USD 700 million to the U.S. in 2003. (The GOJ Department of Statistics, which tracks trade figures outside the QIZs, has not released year-end figures.)

2. (SBU) Jordanian officials are claiming that the QIZs now employ over 30,000 workers, a figure accurate at least in the peak garment manufacturing seasons. If sales by QIZ factories continue at the current pace, the year-long average employment of about 25,000 will certainly increase in the coming year.

#### Growth Despite Persistent Problems

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3. (SBU) Over the course of the year, there were slowdowns in the overall strong growth rate that reflected three major problems faced by Jordan-based QIZ's this past year: the Iraq war, the Aqaba port congestion that followed the war's end, and the Israeli port and labor problems that persisted in the fall. Even in these weak growth periods, sales increased by 20 percent compared to the same period in the previous year.

4. (SBU) According to QIZ factory managers, Aqaba port congestion remains -- with delays of an additional 7-10 days in receiving raw inputs the norm. Shipping out of Haifa port to U.S. destinations also remains a problem, according to factories that have long used that shipping route, including ship congestion and unpredictable loading of containers.

5. (SBU) Recruiting of labor is also a recurrent problem. The government program to train 4,000 workers this year does not appear to meet the demand. Factories are scaling up their wage and bonus packages to attract and retain garment workers. QIZ companies are also mounting their own training programs, but lack raw recruits.

#### Moving to the FTA?

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6. (SBU) A big question mark for QIZ factories is what the specified Israeli content will be if/when Jordan and Israel renegotiate the 8 percent required rate of Israeli content which reverts to 11.7 percent in February. If they cannot count on the specified Israeli content of QIZ products remaining at 8 percent, some QIZ factories are looking at apparel groups that have tariffs reduced to zero under the Jordan-U.S. FTA. For example, a factory in the Tajamouat QIZ is seriously looking at producing cotton ladies' skirts and exporting them under the Jordan-U.S. FTA because the U.S. tariff went down to zero from 2.1 percent this year.

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